Pecca Group (PECCA MK)

Long-term Prospects Remain Intact, Maintain BUY

	BUY (Maintained)
Share Price	RM1.68
Target Price	RM2.04
Upside	21.4%
Previous TP	RM1.70

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Highlights

- We remain positive on Pecca for its multiple growth drivers across the REM and aviation segments, while earnings continue to be well supported by resilient Perodua sales.
- Pecca is well-positioned to secure seat assembly contracts from Chinese OEMs through the expansion of its new manufacturing facility.
- Maintain BUY with a higher target price of RM2.04 (previously RM1.70), based on a higher 18x FY27F PE.

Analysis

- **Riding on resilient Perodua sales.** The national automaker achieved record sales of 359,904 units in 2025, maintaining a 43% share of total industry volume (TIV). Looking ahead to 2026, we expect Perodua to maintain its market share, driven by robust demand for its budget-friendly models and supported by sales of newly-launched models Perodua Traz and QEV. Pecca stands to benefit from Perodua's strong sales momentum, which should continue to support its earnings base in the OEM segment, as the national automaker currently accounts for around 80% of its OEM revenue. In addition, the company will commence mass production of instrumental panel wrap for an EV model in 2H26, which we estimate will contribute around 2% to the group's top-line growth.
- **REM segment to drive earnings growth.** Following earlier delays in replacement equipment manufacture (REM) sales execution due to reciprocal tariff issues, we understand that the first shipment to a key US-based client was completed in Nov 25, which would translate into earnings in 2QFY26. Moving forward, Pecca expects increased shipments volumes to the client and is also working on introducing additional templates in FY27. The company is also exploring other potential new markets, such as the Middle East, where it is finalising a sales agreement with a prominent distributor of a Japanese car brand. We forecast the REM segment's revenue to double in FY26 following the sales contribution from these new export markets. While the appreciation of the ringgit against the US dollar might partially reduce export earnings, we expect the overall impact on the bottom line to be neutral, given Pecca's reliance on imported leather, which provides a natural hedge.

Key Financials

Year to 30 Apr (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	242.5	224.5	257.7	299.4	333.6
EBITDA	73.8	77.6	88.5	110.5	126.2
Operating profit	68.3	71.8	82.6	104.8	120.7
Net profit (rep./act.)	55.0	57.1	67.6	85.2	98.2
Net profit (adj.)	55.0	57.1	67.6	85.2	98.2
EPS (sen)	7.3	7.6	9.0	11.3	13.1
PE (x)	23.0	22.1	18.7	14.8	12.9
P/B (x)	5.4	6.1	5.6	4.9	4.4
EV/EBITDA (x)	15.1	15.0	13.1	10.3	8.8
Dividend yield (%)	3.9	3.0	3.9	4.5	5.1
Net margin (%)	22.7	25.4	26.2	28.4	29.4
Net debt/(cash) to equity (%)	(62.8)	(47.7)	(46.6)	(49.2)	(52.7)
Interest cover (x)	19.2	20.5	23.8	27.8	26.6
ROE (%)	23.5	27.4	29.8	35.3	38.0
Consensus net profit	-	-	63.3	76.6	83.5
UOBKH/Consensus (x)	-	-	1.07	1.11	1.17

Source: Pecca Group, Bloomberg, UOB Kay Hian

Stock Data

GICS sector	Autoparts
Bloomberg ticker:	PECCA MK
Shares issued (m):	752
Market Cap (RMm):	1,217.1
Market Cap (US$m)	294.3
3-mth avg turnover (US$m)	0.5

Price Performance (%)

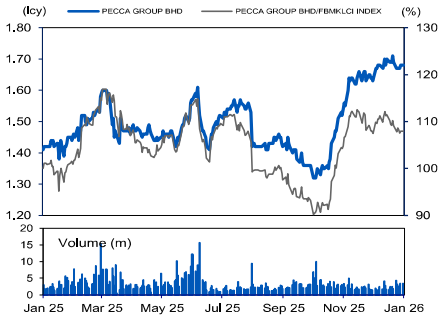
52-week high/low: RM1.70/RM1.30

1mth	3mth	6mth	1yr	YTD
2.4	23.5	10.5	13.5	0

Major Shareholders

	%
MRZ Leather Holdings Sdn Bhd	51.1
Sam Yin Thing	7.3
Huaren Holdings	4.8

Price Chart



Source: Bloomberg

Company Description

Pecca Group is a leading provider of leather upholstery and interior products, serving automotive, and aviation with a strong focus on high-margin segments and global expansion.

- **Aviation segment gaining traction.** Supported by its European Union Aviation Safety Agency (EASA) certification, Pecca is aggressively expanding its aviation business by securing maintenance, repair and overhaul (MRO) contracts from both local and international commercial airlines as well as private aircrafts. FY25 marked a breakthrough year, with the segment recording RM2.3m of revenue after securing recurring MRO jobs from a local commercial airline. We expect revenue growth to accelerate in FY26/27, supported by multiple cabin refurbishment and maintenance jobs in the pipeline; these could potentially result in a double-digit revenue contribution in FY27.
- **Tier 1 plan is on track.** Pecca aims to elevate its status to a Tier 1 automotive supplier by venturing into seat assembly, which offers approximately double the revenue per unit compared with its seat cover business. We note that negotiations with several Chinese carmakers are currently ongoing, and we expect potential contracts wins possible as early as FY27, in tandem with the commissioning of its new manufacturing facility in Serendah. This timely capacity expansion would allow Pecca to benefit from the localisation of EV assembly, particularly by Chinese OEMs, who will seek to increase their local content to qualify for certain tax incentives.
- **New venture into railway industry.** Leveraging its expertise in automobile upholstery, Pecca has ventured into the railway industry through a partnership with Betamek, focusing on the development of seat structures equipped with entertainment systems for a local railway project. Despite a minimal earnings contribution, we see this as a positive strategic move for the company, as it enhances Pecca's capabilities in the seat structure design and full seat assembly, which are directly aligned with its ambition of becoming a Tier 1 automotive supplier.

Valuation/Recommendation

- **Maintain BUY with a higher target price of RM2.04 (previously RM1.70),** as we ascribe a higher 18x FY27F PE (+1SD to five-year mean). While this implies a premium to the sector average of 11x PE, we believe Pecca's valuation is justified by its stronger earnings profile relative to the other automotive players, more resilient earnings supported by Perodua's strong sales volumes, and the growth prospects from its strategic diversification into the export market and the high-margin, high-barrier aviation industry.
- **We expect Pecca to deliver a 19% earnings CAGR over FY25-28F,** driven by: a) strong growth in REM export sales, b) rising contribution from the aviation segment, and c) incremental capacity expansion. The company's fundamental remains solid, with a net cash position of RM92m and sustained net margin of over 25%.

Earnings Revision/Risk

- No changes to our earnings forecast.

Share Price Catalyst

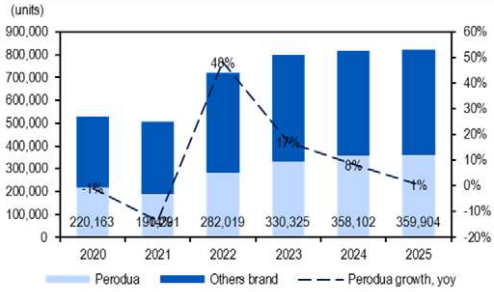
- Securing sizeable MRO or seat assembly contracts from aviation clients and Chinese OEMs.
- Higher-than-expected Perodua sales.

Forecast Segmental Revenue (Rmm)

	FY25	FY26F	FY27F	FY28F
OEM	185.1	198.8	216.3	236.9
REM	7.6	15.3	27.5	36.6
PDI	9.4	9.5	9.6	9.6
Aviation	2.3	9.5	18.8	23.3
PGI	5.6	9.5	11.9	11.9

Source: Pecca Group, UOB Kay Hian

Perodua Sales Volume



Source: MAA, UOB Kay Hian

Environmental, Social And Governance (ESG) Updates

Environmental

- Pecca has achieved a 19.8% reduction in GHG emission intensity in FY25 compared to the FY22 baseline.
- The waste diversion rate increased to 22.4% in FY25 through reductions in hazardous waste and recycling initiatives.

Social

- Zero workplace fatalities were reported. Employees received an average of 8.5 hours of training, focusing on technical skill, ISO certificate and personal development.

Governance

- Zero incident of corruption. 25% female representation aligns with MCGG recommendation.

Source: Pecca Group, UOB Kay Hian

Profit & Loss

Year to 30 Apr (RMm)	2025	2026F	2027F	2028F
Net turnover	225	258	299	334
EBITDA	78	88	111	126
Deprec. & amort.	72	83	105	121
EBIT	-6	-6	-6	-6
Associate contributions	72	83	105	121
Net interest income/(expense)	4	4	4	5
Pre-tax profit	**76**	**86**	**109**	**125**
Tax	-19	-19	-24	-28
Minorities	0	0	0	0
Net profit	**57**	**68**	**85**	**98**
Net profit (adj.)	57	68	85	98

Balance Sheet

Year to 30 Apr (RMm)	2025	2026F	2027F	2028F
Fixed assets	42	43	41	40
Other LT assets	24	24	24	24
Cash/ST investment	154	105	111	131
Other current assets	69	74	83	94
Total assets	**289**	**245**	**259**	**290**
ST debt	2	1	1	1
Other current liabilities	41	24	19	21
LT debt	5	4	4	4
Other LT liabilities	6	7	7	7
Shareholders' equity	234	208	227	256
Minority interest	1	1	1	1
Total liabilities & equity	**289**	**245**	**259**	**290**

Cash Flow

Year to 30 Apr (RMm)	2025	2026F	2027F	2028F
Operating	**48**	**56**	**77**	**90**
Pre-tax profit	76	86	109	125
Tax	-21	-19	-24	-28
Deprec. & amort.	5	6	6	6
Associates	0	0	0	0
Working capital changes	-8	-14	-10	-8
Other operating cashflows	-4	-4	-4	-5
Investing	**-1**	**0**	**0**	**1**
Capex (growth)	-5	-5	-5	-5
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	**-95**	**-49**	**-57**	**-64**
Dividend payments	-63	-49	-57	-64
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	8	2	0	0
Others/interest paid	-33	0	0	0
Net cash inflow (outflow)	**-48**	**6**	**20**	**27**
Beginning cash & cash equivalent	**154**	**105**	**111**	**131**
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	**105**	**111**	**131**	**158**

Key Metrics

Year to 30 Apr (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	30.4	34.6	34.3	36.9
Pre-tax margin	29.7	33.7	33.5	36.3
Net margin	22.7	25.4	26.2	28.4
ROA	19.1	23.3	26.1	29.4
ROE	23.5	27.4	29.8	33.3
Growth				
Turnover	10%	-7%	15%	16%
EBITDA	48%	5%	14%	25%
Pre-tax profit	54%	5%	14%	26%
Net profit	55%	4%	18%	26%
Net profit (adj.)	55%	4%	18%	26%
EPS	7.3	7.6	9.0	11.3
Leverage				
Debt to total capital	-62.8	-47.7	-46.6	-49.2
Debt to equity	-0.6	-0.5	-0.5	-0.5
Net debt/(cash) to equity	30.4	34.6	34.3	36.9
Interest cover (x)	29.7	33.7	33.5	36.3

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